

January 20, 2009

Mr. Timothy Rushenberg
Commissioner
Department of Local Government Finance
Indiana Government Center North
100 North Senate Avenue, Room N1058
Indianapolis, IN 46204

Re: LaPorte County Ratio Studies

On behalf of my client, William Wendt, I want to pass on some of our concerns about the latest LaPorte County sales ratio study. The study does not comply with the 1999 IAAO standard and Indiana law and should not be approved for the following reasons.

Failure to comply with IAAO Standard 3.3. This standard provides in part, “The findings of a ratios study can only be as accurate as the data used in the study....Accuracy of data entered into or transferred between computer systems should be ensured.” First, the data are neither accurate, nor complete. In my January 12, 2009 email to you, I sent an analysis performed by Robert Denne. In attachment 1 to that email, Mr. Denne lists over 300 parcels that have one or more discrepancies between the characteristics found in the “workbook” and the characteristics found in the sales ratio study. These discrepancies involve important information such as neighborhood, land values, and improvement values. Three hundred sales are easily enough to influence the outcome of the study. No one knows at this point which information is correct, the workbook information, the sales ratio information, or whether errors pervade each source. Whatever the explanation for the multitude of errors, the net result is the same: it is pointless to analyze the data further, because LaPorte County has not provided accurate data and is not in compliance with Standard 3.3.

Failure to comply with IAAO Standard 4.4 Standard 4.4 provides in part, “Care must be taken *not* to overstratify, that is, to create strata that are too small to achieve statistical reliability (see Section 8 and Sherrill and Whorton [1991]). No conclusion about stratum level or uniformity should be made from stratum levels that are unreliably small (resulting in an unacceptably large margin of error.)” The approximately 70,000 parcels in LaPorte County have been stratified into 572 neighborhoods, many as small as a single parcel. Based on the January 5 data, there are approximately 143 “neighborhoods” made up of 10 or fewer parcels and approximately 222 “neighborhoods” of 20 or fewer parcels. It is inconceivable that there were enough valid 2004 and 2005 sales in these neighborhoods to provide valid evidence from which a trending factor could be drawn. The inadequate sample sizes mean that no meaningful

statistical conclusions can be drawn about whether these neighborhoods “meet the statistical requirements of 50 IAC 21.”

Continued existence of data manipulation. In the reassessment order, the Department noted, “Dr. Kelly stated that in some neighborhoods Nexus intentionally and without cause adjusts one or more factors such as **age, grade, or condition**” and condemned the practice of data manipulation. (Emphasis added.) While most of the manipulation of **effective age** may have been undone, many citizens and officials in LaPorte County doubt whether the manipulation of **grade and condition** have been corrected. LaPorte County hired the accounting firm of Crowe Horwath to “perform a by parcel comparison between the two assessment years [2005 and 2006] of information related to **age, grade, and condition** and document differences by parcel. For any differences, obtain supporting documentation from Nexus for the changes made to **age, grade, and condition**, by parcel.” (Emphasis added.) Because retrending has been a continual work in process with the data constantly changing, Crowe Horwath has not been able to determine whether the data manipulation has been unwound. At the very least, the county’s vendor should be instructed to stand down (after five tries), and turn the allegedly completed work product over to Crowe Horwath who can then ascertain if the data manipulation has been corrected.

It would bring no credit to the DLGF, and would be an injustice to LaPorte County, if the DLGF approves this fifth version of retrending, only to find out that data manipulation – one of the primary causes for retrending -- still exists.

Impending Problems with 2007 Retrending of the 2006 data was only going to take a few weeks according to the county’s vendor. The retrending order was signed in May of last year. There have been five iterations of the retrending in about 8 months and the tests have not been passed yet. Mr. Denne has done some preliminary work on the 2007 assessments and they seem as fraught with errors and problems as the 2006 data. Indeed, preliminary split sample tests done by Mr. Denne under IAAO standard 10.4 seem to indicate radically dissimilar results from the 2006 tests. This not only suggests deficiencies in the 2007 data, it is also an indication of sales chasing, or continued data manipulation in the 2006 tests. One can only wonder when, if ever, the 2007 data can be successfully trended. The citizens of LaPorte County deserve better than they have received, and unnecessary further delays for the 2007 tax bills only add insult to injury. If LaPorte is ever going to get back on schedule, the current situation must be terminated.

A Possible Solution. Enough is enough. Too much time, too much money, and too much effort from Mr. Wendt and the Department have been expended on trying to insure that LaPorte County lives up to its obligations under Indiana law. The past eight months have shown that the combination of the county’s assessment data and current personnel are incapable of successfully retrending. Therefore the DLGF should take the following steps immediately:

1. The DLGF should halt the current retrending efforts, declare them a failure, and assume responsibility for control of the reassessment.

2. The 2005 assessment records, which we believe are largely unsullied by data manipulation, should be updated for new construction and demolition. We are advised by the county that this can be accomplished promptly and at relatively little expense. The DLGF should then derive trending factors and order the county to apply those factors to the updated 2005 assessment records. A similar process could be applied to the 2007 and perhaps 2008 data. In this way LaPorte could be brought back on schedule with the shortest delay.

3. Order a boots on the ground reassessment as soon as possible. It is conceivable that because of the delays in retrending that a full reassessment cannot now be completed until 2011. If so, the delay is regrettable. However that may be, the only salvation for LaPorte assessments is a competent, full reassessment at the earliest possible date. The Department should so order.

4. The Department should continue to investigate how and why the LaPorte assessment debacle happened and who is responsible; inform the county commissioners of the results of the investigation; and take other steps to see that taxpayers in LaPorte County and throughout the state of Indiana are not subjected to these types of assessment shenanigans actions in the future.

These recommendations are not a perfect solution; but they may be the best option in striking a balance between the need for equitable and accurate assessments with a need to bring this fiasco to a prompt a resolution. The other options are worse. The Department can adhere to the IAAO standards and demand compliance. If so, it should require another vendor to make the attempt. This option is fraught with delay and the underlying assessment data may be so bad that they cannot be brought into compliance with the standards. Alternatively, the Department could give a wink and a nod to the IAAO standards, overlook the data torture and data manipulation that have already occurred, wash its hands of the whole mess, and approve the current study. In addition to the disadvantage of the cost and delay of litigation, this “solution” would diminish the stature of the DLGF, and abandon LaPorte taxpayers.

At long last, it seems as if the government of LaPorte County, many of its elected and appointed officials, and its citizens are working together to bring about a reasonable compromise solution to this regrettable problem. We are confident a solution is at hand – a solution that benefits the taxpayers, the county and the state. But this solution can only be achieved if the DLGF continues to have the courage to lead.

Very truly yours,

Thomas M. Atherton

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